



Principles and Practices of Financial Management of Metropolitan's Discretionary Participation Products

Client summary

Conventional with-profit business

This document summarises how Momentum Metropolitan Life Limited ("Metropolitan") manages its conventional with-profit business and where and how we apply discretion. It focuses on the management of the pooled investment portfolio and not on all the other features of the different policies.

Metropolitan follows the obligations as stated in the policy contracts and complies with any legal and regulatory requirements. If there are any differences between this summary document and the policy contract and/or legal requirements, the contract and/or legal requirements will be considered final and correct.

What are discretionary participation products?

These are products that rely on the ability of the insurer to use its discretion (i.e., decide what is in the best interest of the policyholders invested in those portfolios) to manage them with regards to the investment of assets, the smoothing of returns and bonus declarations.

Managing discretionary participation products requires trust between policyholders and Metropolitan. We take decisions with the intention of being in the best interests of policyholders and the sustainability of the products. Sustainability of the products means that we will use and invest the policyholders' money wisely.

What is conventional with-profit business?

A conventional with-profit policy value consists of a guaranteed amount, the basic sum insured which is paid out on reaching the maturity date. If stated in your policy contract, we may add to this guaranteed amount regular bonuses called reversionary bonuses which are declared yearly. On reaching maturity we may also add a final bonus called a terminal bonus in addition to the guaranteed sum insured and any reversionary bonuses added previously.

The same amount is normally payable in the event of death before maturity (if you have cover on death) or in the event of any other contractual claim that the policy may stipulate. Contractual claims are defined as death, disability, maturity or retirement claims.

How does a conventional with-profit product work?

Metropolitan declares guaranteed bonus rates also known as reversionary (or vested) bonus rates yearly. If stated in your policy contract, these bonuses represent a guaranteed addition to the sum insured of the policy. The reversionary bonus rates are determined either as a percentage of the basic sum insured only (simple reversionary bonus) or as a percentage of the basic sum insured plus a (possibly different) percentage of previously declared reversionary bonuses (compound reversionary bonus).

Terminal bonuses are not guaranteed (non-vested) and may only be added at claims stage such as on death, disability or maturity. The following is also noteworthy:

- For Metropolitan Reversionary Bonus Business, terminal bonus rates are determined as a percentage of the basic sum insured plus previously declared reversionary bonuses;
- For Conventional With-Profit Funeral policies (with the exception of Industrial Branch policies) and Group Risk Paid-up policies, terminal bonus rates are determined as a percentage of the basic sum insured plus terminal bonuses declared to date; and
- For Conventional With-Profit Funeral policies (Industrial Branch policies), terminal bonus rates are determined as a percentage of the basic sum insured plus bonuses (terminal and reversionary) declared to date.

Terminal bonuses are expected to increase the longer a policy has been in force. Different terminal bonus rates may apply to the basic sum insured and reversionary bonuses. Both reversionary and terminal bonuses are an addition to the sum insured when they apply and are payable in full only on a contractual claim. They do not reflect a cash value that is immediately available.

What fees do Metropolitan charge?

Metropolitan charges you to administer the policy and in some cases to pay shareholders for providing guarantees (see below). The charges depend on the type of policy that you have. The policy contract will explain this in more detail.

What will happen to my policy if I decide to cash it in before the maturity date?

Your payout will be subject to an early termination fee (also known as a surrender penalty) in line with South African law. Please speak to your adviser for more information about the 'early termination' fee.

The payout may also in some circumstances be subject to a market value adjuster ("MVA") which is explained below, and means that the money in your investment account will be reduced upon payment.

What is a market value adjuster?

The market value of assets for all policies in a conventional with-profit product can be lower than the value of benefits to be paid over the lifetime of all policies ("liability") in some circumstances, for instance, when investment markets are down. If this is the case, we may reduce the benefit for policyholders who cash in their policies (entirely or partially) early by the MVA.

If Metropolitan did not reduce the policy benefit by the MVA for those policyholders who terminate their policies early, this would mean that the policyholders who still have policies invested would receive lower bonus rates in future, which is not fair to them.

An MVA will not apply on a contractual claim event.

How does Metropolitan decide on the bonus rates to declare?

Conventional with-profit products differ in terms of the respective risks that policyholders and shareholders carry and how we determine the surplus that is available for distribution.

Each year, when the bonus declaration is done, Metropolitan calculates the value of its conventional with-profits liabilities, including an allowance for the bonus rates to be declared, separately per product. We compare the value of liabilities for a particular product with the corresponding market value of assets. The difference between the market value of assets and the value of liabilities is available for distribution. We calculate the value of liabilities according to formulae based on assumptions for future experience. The market value of assets increases with premiums received and investment returns and decreases with the payment of benefits and expenses.

Depending on the amount available for distribution, the economic outlook and interest rate forecasts, we decide what a sustainable level of bonus would be. Metropolitan declares bonus rates based on the recommendations from the Head of Actuarial Function.

When are bonus rates declared and applied?

Metropolitan declares bonus rates once a year. For Conventional With-Profit funeral policies and Group Risk Paid-up policies, this occurs about two months after the end of our financial year, which is 30 June. For Metropolitan Reversionary Bonus policies, this occurs about two months after the end of a calendar year. We apply reversionary bonus rates for the year starting at the previous policy anniversary.

This means that for a policy with an anniversary on, for example, 1 March, the bonus rates declared after the 30 June year-end, will apply for that policy from 1 April in that year to 30 March in the following year. Terminal bonus rates are also reviewed yearly and apply to policies that have contractual claims on a date following the declaration date.

The payment date for benefits to your policy often is not the same as the declaration date. For this reason, we may add an interim bonus to policies that claim, from the last declaration date to the date of the claim event (e.g., death, disability, maturity, surrender, or retirement) to make sure that your policy also receives the benefit of investment returns since the last bonus declaration. We can revise the interim bonus rates at any time during the year, such as upon a significant change in market conditions. We review terminal bonus rates once a year.

How are the underlying assets invested?

Metropolitan invests the assets underlying conventional with-profit products in a range of suitable assets. The assets chosen will enable us to meet the guaranteed benefits when they fall due while maximising expected returns and at the same time limiting the risk of large falls in the value of the assets.

How Metropolitan manages policyholder interests?

If the market value of the assets in a conventional with-profit product drops significantly below the value of its liabilities in the pool, and the investment returns in the market are unlikely to recover soon, in order to protect the portfolio and make sure all policyholders are treated fairly, other than applying a market value adjuster, Metropolitan may:

- change how the underlying assets are invested;
- reduce or remove terminal bonuses (if stated in your policy contract);
- inject money into the portfolio on a temporary or permanent basis; or
- declare lower reversionary bonus rates (if stated in your policy contract).

How can I get more information?

You can view a more detailed document called Principles and Practices of Financial Management of Metropolitan's discretionary participation products (PPFM) at www.metropolitan.co.za or request it from your financial adviser or from our head office.

Telephone number: 0860 724 724

Email address: info@metropolitan.co.za

Postal address: PO Box 2212, Bellville, 7535